

HARBOR BEACH COMMUNITY SCHOOLS

Harbor Beach, Michigan

REPORT ON FINANCIAL STATEMENTS

(with additional information)

June 30, 2007

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Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

Harbor Beach School District, a K-12 school district located in Huron County, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Harbor Beach School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2007 and June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements prepared prior to GASB 34. The primary difference is that the Account Groups (General Fixed Assets and General Long-term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, school district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are required by GASB 34. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements included capital assets, net of related depreciation, as well as the bonded debt of the District.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended:

Assets	<u>June 30, 2006</u>	<u>June 30, 2007</u>
Current assets	\$ 3,390,983	\$ 3,532,132
Deferred amount on bond refunding	504,762	479,524
Capital assets	19,271,025	19,333,183
Less: Accumulated depreciation	<u>(2,864,688)</u>	<u>(3,234,768)</u>
Non current assets	16,911,099	16,577,939
Total assets	<u>\$20,302,082</u>	<u>\$20,110,071</u>
Liabilities		
Current liabilities	\$ 961,170	\$1,067,087
Long-term liabilities	<u>11,219,927</u>	<u>10,858,207</u>
Total liabilities	12,181,097	11,925,294
Net Assets		
Invested in capital assets, net of related debt	\$ 4,828,130	\$ 4,875,208
Restricted for debt service	240,967	280,775
Unrestricted	<u>3,051,888</u>	<u>3,028,794</u>
Total net assets	8,120,985	8,184,777
Total liabilities and net assets	<u>\$20,302,082</u>	<u>\$20,110,071</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2007, the District's net assets increased by \$63,792. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Harbor Beach Community Schools

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2007

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal years ended June 30, 2007 and June 30, 2006, \$482,287 and \$445,748 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2007, \$174,365 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$307,922 for the fiscal year ended June 30, 2007.

Results of Operations

For the fiscal years ended June 30, 2007 and June 30, 2006, the results of operations, on a District-wide basis were:

	June 30, 2006		June 30, 2007	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$2,157,567	28.4%	\$2,209,384	30.3%
Investment earnings	73,639	1%	63,232	0.9%
State sources	3,943,054	51.8%	3,882,071	53.3%
Transfers from other districts	470,126	6.2%	460,295	6.3%
Other	68,604	.9%	62,079	0.9%
Total general revenues	6,712,990	88.3%	6,677,061	91.7%
Program Revenues				
Charges for services	114,478	1.5%	132,793	1.8%
Operating grants	779,715	10.2%	473,949	6.5%
Total revenues	<u>7,607,183</u>	<u>100.0%</u>	<u>7,283,803</u>	<u>100.0%</u>
Expenses				
Instruction	\$3,743,100	49.8%	\$3,647,699	50.5%
Support services	2,344,383	31.2%	2,133,730	29.6%
Community services	0	0%	0	0%
Food services	312,087	4.2%	283,157	3.9%
Athletics	156,397	2%	161,363	2.2%
Interest on long-term debt	491,117	6.5%	486,537	6.7%
Unallocated depreciation expense	470,986	6.3%	507,525	7.1%
Total expenses	<u>7,518,070</u>	<u>100.0%</u>	<u>7,220,011</u>	<u>100.0%</u>
Increase (decrease) in net assets	<u>\$ 89,113</u>		<u>\$63,792</u>	

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 3I. According to Michigan law, the taxable levy is based on the taxable valuation of properties.

The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2006-2007 fiscal year, the District levied \$1,338,125 in non-homestead property taxes. This represented an increase of 2.14% from the prior year. The amount of unpaid property taxes at June 30, 2007, less an estimate for those deemed to be uncollectible, was \$1,500.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from Prior Year
2006-2007	\$1,338,125	2.14%
2005-2006	1,310,047	2.27%
2004-2005	1,280,981	6.61%
2003-2004	1,201,543	3.05%
2002-2003	1,165,946	5.85%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2006-2007 fiscal year, the District received \$7,085 per student FTE, which was \$210 more than the base amount received for the 2005-2006 fiscal year.

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

3. Student Enrollment

The following schedule lists the actual FTE for the blended student enrollment for the past five fiscal years.

	Actual Blended Student FTE
2006-2007	699
2005-2006	725
2004-2005	772
2003-2004	778
2002-2003	779

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2007, federal, state, and other grants accounted for \$473,949. This represents an decrease over the total grant sources of \$305,766 received for the 2005-2006 fiscal year.

5. County Special Education Allocation

For the fiscal year ended June 30, 2007, the District received an allocation from the Huron Intermediate School District in the amount of \$327,286 to assist with the education of students with special needs. This amount represents an increase of \$4,591 over the prior fiscal year.

6. Interest Earnings

The District received interest on its investments in the amount of \$63,232 for the fiscal year ended June 30, 2007. Interest revenues are decreased from the prior fiscal year by \$10,407 due to less cash to invest in the Capital Project Fund and the General Fund.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

7. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in fund Balances is shown below:

	2005-2006 Fiscal Year	2006-2007 Fiscal Year	Increase (Decrease)
Expenditures			
Instruction	\$3,836,099	\$3,647,699	\$(188,400)
Supporting services	2,344,383	2,198,795	(145,588)
Food service activities	312,087	283,157	(28,930)
Athletic activities	156,397	161,363	4,966
Capital Outlay	0	109,300	109,300
Debt Service	829,678	843,054	13,376
Total expenditures	<u>\$7,478,644</u>	<u>\$7,243,368</u>	<u>\$(235,276)</u>

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2006-2007 fiscal year, the District's board amended the general fund budget several times. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance with Final Budget positive (negative)	% Variance
Total revenues	<u>\$5,656,282</u>	<u>\$6,141,661</u>	<u>\$6,098,922</u>	<u>(\$42,739)</u>	<u>(.7%)</u>
Expenditures					
Instruction	\$3,580,276	\$3,717,448	\$3,647,699	\$69,749	1.9%
Supporting services	1,936,560	2,259,313	2,198,795	60,518	2.7%
Total expenditures	<u>\$5,516,782</u>	<u>\$5,976,761</u>	<u>\$5,846,494</u>	<u>\$130,267</u>	<u>2.2%</u>

Harbor Beach Community Schools Management's Discussion and Analysis For Fiscal Year Ended June 30, 2007

The original revenue budget of \$5,656,282 was increased to \$6,141,661 primarily as a result of increased local revenues.

Capital Asset and Debt Administration

Capital Assets -

By the end of the 2006-2007 fiscal year, the District had invested \$19,333,183 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$62,158 over the prior fiscal year. Depreciation expense for the year amounted to \$482,287, bringing the accumulation to \$3,234,768 as of June 30, 2007.

Long-term Debt -

At June 30, 2007, the District had \$11,185,000 in bonded debt outstanding. This represents a decrease of \$355,00 over the amount outstanding at the close of the prior fiscal year.

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2007-2008 fiscal year. The 2007-2008 foundation allowance has been projected to remain the same at \$7,085. This was done as a conservative measure with the possibility of potential pro-ratio cuts from the State of Michigan for the 2007/2008 school year.

As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has increased the retirement rate from 16.34% to 17.74% beginning October 1, 2006 to fund the retirement system. The increase in the number of retirees projected to occur over the next few years may result in continued higher annual increases.

**Harbor Beach Community Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2007**

The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent's Office, Harbor Beach Community School District, 402 South Fifth Street, Harbor Beach, Michigan 48441.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
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September 13, 2007

INDEPENDENT AUDITOR'S REPORT

Board of Education
Harbor Beach Community Schools
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Harbor Beach Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach Community Schools as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2007 on our consideration of Harbor Beach Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through viii and page 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Harbor Beach Community Schools
September 13, 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the primary government of Harbor Beach Community Schools' basic financial statements. The additional information on pages 25 to 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

BASIC FINANCIAL STATEMENTS

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2007

CURRENT ASSETS	GOVERNMENTAL ACTIVITIES
Cash and equivalents	\$ 861,279
Investments	1,681,044
Accounts receivable	-
Interest receivable	5,362
Prepaid expense	56,280
Due from other governmental units	926,667
Property taxes receivable	1,500
TOTAL CURRENT ASSETS	3,532,132
NONCURRENT ASSETS	
Deferred amount on bond refunding	479,524
Capital assets	19,333,183
Less accumulated depreciation & amortization	(3,234,768)
TOTAL NONCURRENT ASSETS	16,577,939
TOTAL ASSETS	\$ 20,110,071
 <u>LIABILITIES AND NET ASSETS</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 331,189
Benefits payable	83,505
Deferred revenue	1,590
Accrued interest	80,828
Retirement payable	-
Salaries payable	190,409
Other accruals	14,566
Current portion of long term debt	365,000
TOTAL CURRENT LIABILITIES	1,067,087
NONCURRENT LIABILITIES	
Noncurrent portion of long term debt	10,858,207
TOTAL LIABILITIES	11,925,294
NET ASSETS	
Invested in capital assets, net of related debt	4,875,208
Restricted for debt service	280,775
Unrestricted	3,028,794
TOTAL NET ASSETS	8,184,777
TOTAL LIABILITIES AND NET ASSETS	\$ 20,110,071

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 3,647,699		\$ 223,007	\$ (3,424,692)
Support services	2,133,730	\$ 35,551	95,575	(2,002,604)
Community services	-	-		-
Food services	283,157	68,746	155,367	(59,044)
Athletics	161,363	28,496		(132,867)
Interest on long-term debt	486,537		-	(486,537)
Unallocated depreciation & amortization	507,525			(507,525)
Total governmental activities	<u>\$ 7,220,011</u>	<u>\$ 132,793</u>	<u>\$ 473,949</u>	(6,613,269)
General revenues:				
Property taxes, levied for general purposes				1,338,125
Property taxes, levied for debt service				871,259
State sources				3,882,071
Investment revenue				63,232
Transfers from other districts				460,295
Miscellaneous				62,079
Total general revenue				<u>6,677,061</u>
Change in net assets				63,792
Net assets, beginning of year				<u>8,120,985</u>
Net assets, end of year				<u>\$ 8,184,777</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>GENERAL FUND</u>	<u>DEBT RETIREMENT</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash	\$ 308,254	\$ 361,603	\$ 15,616	\$ 175,806	\$ 861,279
Investments	1,053,789		627,255		1,681,044
Accounts receivable	-				-
Interest receivable			5,362		5,362
Prepaid expense	56,280				56,280
Due from other funds	112,614		-	-	112,614
Due from other governmental units	924,871			1,796	926,667
TOTAL ASSETS	<u>\$ 2,455,808</u>	<u>\$ 361,603</u>	<u>\$ 648,233</u>	<u>\$ 177,602</u>	<u>\$ 3,643,246</u>
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES:					
Accounts payable	\$ 330,664			\$ 525	\$ 331,189
Benefits payable	83,505				83,505
Deferred Revenue	1,590				1,590
Due to other funds	-			112,614	112,614
Retirement payable	-				-
Salaries payable	190,409			-	190,409
Other accruals	14,566			-	14,566
TOTAL LIABILITIES	<u>620,734</u>	<u>-</u>	<u>-</u>	<u>113,139</u>	<u>733,873</u>
FUND BALANCE:					
Reserved for debt service		\$ 361,603			361,603
Unreserved:					
Designated for special projects	104,165		\$ 648,233		752,398
Undesignated	1,730,909			64,463	1,795,372
TOTAL FUND BALANCE	<u>1,835,074</u>	<u>361,603</u>	<u>648,233</u>	<u>64,463</u>	<u>2,909,373</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,455,808</u>	<u>\$ 361,603</u>	<u>\$ 648,233</u>	<u>\$ 177,602</u>	<u>\$ 3,643,246</u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 2,909,373
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	19,333,183
Accumulated depreciation is:	(3,234,768)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(11,223,207)
Deferred amount on bond refunding	479,524
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(80,828)

Balance of taxes receivable at 6/30/07 less allowance for doubtful accounts

1,500

Net Assets of Governmental Activities	<u><u>\$ 8,184,777</u></u>
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The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2007

	GENERAL FUND	DEBT RETIREMENT	CAPITAL PROJECTS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Local sources	\$ 1,454,555	\$ 881,345	\$ 32,008	\$ 99,580	\$ 2,467,488
State sources	3,865,490	-		16,581	3,882,071
Federal sources	318,582			155,367	473,949
Transfers from other districts	460,295				460,295
TOTAL REVENUES	6,098,922	881,345	32,008	271,528	7,283,803
EXPENDITURES					
Instruction	3,647,699				3,647,699
Supporting services	2,198,795				2,198,795
Community services	-				-
Food services				283,157	283,157
Athletic services				161,363	161,363
Capital outlay			109,300	-	109,300
Debt service:					
Principal redemption		355,000		-	355,000
Interest and fiscal charges		488,054		-	488,054
TOTAL EXPENDITURES	5,846,494	843,054	109,300	444,520	7,243,368
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	252,428	38,291	(77,292)	(172,992)	40,435
OTHER FINANCING SOURCES (USES)					
Fund transfers in			25,400	139,500	164,900
Fund transfers out	(164,900)				(164,900)
TOTAL OTHER FINANCING SOURCES (USES)	(164,900)	-	25,400	139,500	-
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	87,528	38,291	(51,892)	(33,492)	40,435
FUND BALANCE AT BEGINNING OF YEAR	1,747,546	323,312	700,125	97,955	2,868,938
FUND BALANCE AT END OF YEAR	\$ 1,835,074	\$ 361,603	\$ 648,233	\$ 64,463	\$ 2,909,373

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2007

Total net change in fund balances--governmental funds	\$ 40,435
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(482,287)
Capital outlay	174,365

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	82,345
Accrued interest payable at the end of the year	(80,828)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	355,000
--	---------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortization in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

Amortization of deferred amount on bond refunding	(25,238)
---	----------

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(1,500)
Accrued revenue at the end of the year	1,500

Change in net assets of governmental activities	\$ <u>63,792</u>
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The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

	<u>PRIVATE- PURPOSE TRUST</u>	<u>AGENCY FUNDS</u>
CURRENT ASSETS		
Cash	\$ -	\$ 93,977
Investments	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 93,977</u>
LIABILITIES		
Due to student organizations		<u>\$ 93,977</u>
TOTAL LIABILITIES		<u>\$ 93,977</u>
NET ASSETS		
Reserved for scholarships	<u>\$ -</u>	
TOTAL NET ASSETS	<u>\$ -</u>	

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	<u>PRIVATE- PURPOSE TRUST</u>
ADDITIONS	
Interest earnings	\$ -
Dividends	-
Donations	-
	<u>-</u>
Total additions:	<u>-</u>
DEDUCTIONS	
Scholarships awarded	-
Increase (decrease) in fair market value of investments	-
	<u>-</u>
Total deductions	<u>-</u>
CHANGE IN NET ASSETS	<u>-</u>
NET ASSETS	
Beginning of year	<u>12,402</u>
Transfer of Funds to Huron County Community Foundation	<u>(12,402)</u>
End of year	<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of the Harbor Beach Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Harbor Beach Community Schools (the "District") is governed by the Harbor Beach Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as general revenues.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. These functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function.

Operating grants include operating-specific and discretionary (either operating or capital) grants.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (Continued):

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994.

OTHER NON-MAJOR FUNDS

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Nonexpendable trust funds account for assets where only the interest may be spent. These funds are not reported on the District's financial statements. The District's trust fund currently holds assets donated to the District.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION, (Continued):

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007 the foundation allowance was based on the pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 - August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are recorded as deferred revenue.

For the year ended June 30, 2007 \$86,149 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

The District along with certain other governmental units is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund – Non Homestead	18.00
Debt Service Fund	3.95

HARBOR BEACH COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000. Group purchases are evaluated on a case-by-case basis.

5. Compensated Absences.

Each teacher is accorded a maximum of 100 compensated sick leave days. These sick days must be used during the school year. Any unused number of days is paid out at \$40 per day, with a maximum of \$480 per year. This is paid prior to June 30, therefore, no liability is recorded for accumulated compensated absences.

6. Unemployment Insurance.

The District reimburses the Bureau of Worker's & Unemployment Compensation (BW & UC) for the actual amount of unemployment benefits disbursed by the BW & UC on behalf of the District. Billings received for amounts paid by the through June 30 are accrued, if material.

7. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

8. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets do not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

9. Memorandum Only - Total Column.

The total column on the combined basic financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

10. Use of Estimates.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

HARBOR BEACH COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1st. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1st, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, the School Board must approve these transfers and any revisions that alter the total expenditures of any fund.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

HARBOR BEACH COMMUNITY SCHOOLS

Notes to Financial Statements For The Year Ended June 30, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK:

As of June 30, 2007, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
General Fund:				
MILAF External Investment pool -MIMAX	\$ 1,053,789	0.0027	AAAm	63
Capital Projects Fund:				
MILAF External Investment pool -Term	627,255	0.0027	AAAf	37
Total fair value	<u>\$1,681,044</u>			100.0%
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$300,000 of the District's bank balance of \$1,065,963 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Included in the above deposit figures are bank money market deposits of \$587,264.

HARBOR BEACH COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS - CREDIT RISK. (Continued):

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$93,977	\$ 955,256
Investments - including fiduciary funds of \$0	<u>1,681,044</u>
	<u><u>\$ 2,636,300</u></u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 861,279
Investments - District wide	<u>1,681,044</u>
	<u><u>\$ 2,636,300</u></u>

HARBOR BEACH COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 4 - LONG-TERM DEBT:

During the fiscal year ending June 30, 2005, the district refinanced \$9,345,000 of the 2001 bonds. The refinancing is expected to save the district approximately \$352,055 over the next 22 years.

Following is a summary of the various long-term debt of the school district:

1998 Durant Bonds	\$ 38,207
2001 School Building and Site Bonds	1,390,000
2005 Refunding Bonds	9,795,000
Less: deferred amount on bond refunding	<u>(479,524)</u>
Total long-term debt	<u>\$10,743,683</u>

DEBT SERVICE REQUIREMENTS:

The annual requirements to amortize long-term debt outstanding as of June 30, 2007 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 365,000	\$ 473,163	\$ 838,163
2009	383,601	459,743	843,344
2010	398,773	444,091	842,864
2011	432,356	434,989	867,345
2012	434,140	409,639	843,779
2013	454,337	392,241	846,578
2014	470,000	374,035	844,035
2015	490,000	354,060	844,060
2016	510,000	334,460	844,460
2017	530,000	312,785	842,785
2018	555,000	290,260	845,260
2019	575,000	266,673	841,673
2020	600,000	242,235	842,235
2021	630,000	216,735	846,735
2022	655,000	189,960	844,960
2023	685,000	162,122	847,122
2024	715,000	133,010	848,010
2025	745,000	102,623	847,623
2026	780,000	70,587	850,587
2027	<u>815,000</u>	<u>36,267</u>	<u>851,267</u>
Total	11,223,207	5,699,678	16,922,885
Deferred amount on bond refunding	<u>(479,524)</u>	<u>0</u>	<u>(479,524)</u>
Total	<u>\$10,743,683</u>	<u>\$5,699,678</u>	<u>\$16,443,361</u>

HARBOR BEACH COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 4 - LONG-TERM DEBT, (Continued):

An amount of \$361,603 is available in the debt service fund to service the general obligation debt.

CHANGES IN LONG-TERM DEBT:

Following is a summary of long-term debt transactions of the district for the year ended June 30, 2007:

	<u>GENERAL OBLIGATION</u>
Long-term debt - July 1, 2006	\$11,073,445
2001 School Bonds Paid	(315,000)
Durant Bonds Paid	(0)
2005 Refunding Bonds Paid	(40,000)
Amortization of deferred amount on bond refunding	<u>25,238</u>
Total	<u>\$10,743,683</u>

Interest expense (all funds) for the year ended June 30, 2007 was \$487,750.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

HARBOR BEACH COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM-DEFINED BENEFIT PLAN, (Continued):

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2006 was 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006, and 2005 were \$527,130, \$551,957, and \$507,793, respectively, and were equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other post-employment benefits – Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

NOTE 6 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances at June 30, 2007 are as follows:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$112,614	
Special Revenue Fund	<u> </u>	<u>\$112,614</u>
Total	<u>\$112,614</u>	<u>\$112,614</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

HARBOR BEACH COMMUNITY SCHOOLS
Notes to Financial Statements
For The Year Ended June 30, 2007

NOTE 8 – DESIGNATED FUND BALANCE:

The fund balance in the General Fund has been designated by the School Board at June 30, 2007 for the following purposes:

Technology Fund	\$ 41,585
Curriculum Revisions/Math	24,626
Curriculum Revisions/LA	<u>37,954</u>
Total	<u>\$104,165</u>

NOTE 9 – SECTION 125 CAFETERIA PLAN:

The School District established a Section 125 Cafeteria Plan through AFLAC Administrative Services. All employees who meet the plan criteria are eligible to participate beginning with the 2002-2003 school year.

NOTE 10 – TRANSFERS:

The general fund transferred \$139,500 to the athletic fund and \$25,400 to the capital project fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations. The transfer to the capital projects fund was to set aside funds for a running track project.

NOTE 11 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	BALANCE JULY 1, 2006	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2007
Assets not being depreciated - land	\$ 57,065			\$57,065
Other capital assets:				
Buildings and additions	17,640,146	\$69,275		17,79,421
Technology	364,518			364,518
Athletic equipment	323,590	10,000		333,590
General equipment	367,003	25,850		392,853
Transportation equipment	518,703	69,240	(\$112,207)	475,736
Subtotal	19,213,960	174,365	(112,207)	19,276,118
Total accumulated depreciation	(2,864,688)	(482,287)	112,207	(3,234,768)
Net other capital assets	16,349,272	(307,922)	NONE	16,041,350
Net capital assets	\$16,406,337	\$(307,922)	NONE	\$16,098,415

Depreciation expense was charged as unallocated to the governmental activities in the amount of \$482,287 .

REQUIRED SUPPLEMENTARY INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>			<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES:				
Local sources	\$ 39,500	\$ 1,529,399	\$ 1,454,555	\$ (74,844)
State sources	4,893,855	3,852,247	3,865,490	13,243
Federal sources	274,330	243,617	318,582	74,965
Transfers from other districts	448,597	516,398	460,295	(56,103)
TOTAL REVENUES	<u>5,656,282</u>	<u>6,141,661</u>	<u>6,098,922</u>	<u>(42,739)</u>
EXPENDITURES:				
Instruction	3,580,276	3,717,448	3,647,699	69,749
Supporting services	1,936,506	2,259,313	2,198,795	60,518
Community services		-	-	-
TOTAL EXPENDITURES	<u>5,516,782</u>	<u>5,976,761</u>	<u>5,846,494</u>	<u>130,267</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>139,500</u>	<u>164,900</u>	<u>252,428</u>	<u>87,528</u>
OTHER FINANCING SOURCES (USES):				
Transfer to Other Funds	<u>(139,500)</u>	<u>(164,900)</u>	<u>(164,900)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(139,500)</u>	<u>(164,900)</u>	<u>(164,900)</u>	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>-</u>	<u>-</u>	<u>87,528</u>	<u>87,528</u>
FUND BALANCE - BEGINNING OF YEAR	<u>1,747,546</u>	<u>1,747,546</u>	<u>1,747,546</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,747,546</u>	<u>\$ 1,747,546</u>	<u>\$ 1,835,074</u>	<u>\$ 87,528</u>

ADDITIONAL INFORMATION

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2007

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 175,806	\$ 175,806
Due from other governmental units	1,796	1,796
Due from other funds	-	-
	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 177,602</u>	<u>\$ 177,602</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Accounts payable	\$ 525	\$ 525
Salaries payable	-	-
Due to other funds	112,614	112,614
Accrued Liabilities	-	-
	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>113,139</u>	<u>113,139</u>
 FUND BALANCE:		
Unreserved	64,463	64,463
	<u>64,463</u>	<u>64,463</u>
TOTAL FUND BALANCE	<u>64,463</u>	<u>64,463</u>
 TOTAL LIABILITIES & FUND BALANCE	<u>\$ 177,602</u>	<u>\$ 177,602</u>

HARBOR BEACH COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2007

	GOVERNMENTAL FUND TYPES	TOTAL
	SPECIAL REVENUE	2007
REVENUES:		
Local sources		
Admissions	\$ 28,496	\$ 28,496
Meals	62,374	62,374
A la carte	6,249	6,249
Vending machines	123	123
Interest	2,338	2,338
Miscellaneous	-	-
Total local sources	<u>99,580</u>	<u>99,580</u>
State sources		
State aid	<u>16,581</u>	<u>16,581</u>
Federal sources		
National School Lunch Program	138,291	138,291
USDA Commodities	<u>17,076</u>	<u>17,076</u>
Total federal sources	<u>155,367</u>	<u>155,367</u>
TOTAL REVENUES	<u>271,528</u>	<u>271,528</u>
EXPENDITURES:		
Food services	283,157	283,157
Athletics	161,363	161,363
Capital outlay		-
Debt retirement:		
Principal repayment		-
Interest and other fiscal charges		-
TOTAL EXPENDITURES	<u>444,520</u>	<u>444,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(172,992)</u>	<u>(172,992)</u>
OTHER FINANCING SOURCES (USES):		
Fund transfers in	<u>139,500</u>	<u>139,500</u>
TOTAL OTHER FINANCING SOURCES (USES)	139,500	139,500
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>(33,492)</u>	<u>(33,492)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>97,955</u>	<u>97,955</u>
FUND BALANCE - END OF YEAR	<u>\$ 64,463</u>	<u>\$ 64,463</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
LOCAL SOURCES:			
Property taxes	\$ 1,338,114	\$ 1,338,125	\$ 11
Tuition - driver education	-	-	-
Transportation	35,551	35,551	-
Earnings on investments	45,965	50,808	4,843
Grants and donations	-	-	-
Other local revenues	109,769	30,071	(79,698)
Total Local Sources	<u>1,529,399</u>	<u>1,454,555</u>	<u>(74,844)</u>
STATE SOURCES:			
State aid	3,501,153	3,508,074	6,921
Durant settlement	-	6,471	6,471
Special education	152,738	152,738	-
Drivers education	-	-	-
Other state sources:			
At Risk	191,037	190,888	(149)
Other	7,319	7,319	-
Total State Sources	<u>3,852,247</u>	<u>3,865,490</u>	<u>13,243</u>
FEDERAL SOURCES:			
Title I	166,294	152,627	(13,667)
Title V	1,704	1,704	-
Title II	69,293	69,726	433
Transition	-	-	-
RUSDLT	-	79,710	79,710
Other	6,326	14,815	8,489
Total Federal Sources	<u>243,617</u>	<u>318,582</u>	<u>74,965</u>
OTHER TRANSACTIONS:			
Incoming Transfers:			
Tuition	42,000	45,775	3,775
Transportation	8,000	9,054	1,054
Special education	333,498	327,286	(6,212)
Vocational education	9,339	9,339	-
Gifted and talented	-	-	-
Medicaid services coordination	33,320	33,320	-
Other	74,041	19,321	(54,720)
Sale of assets	16,200	16,200	-
Total Other Transactions	<u>516,398</u>	<u>460,295</u>	<u>(56,103)</u>
TOTAL REVENUES AND OTHER TRANSACTIONS	<u>\$ 6,141,661</u>	<u>\$ 6,098,922</u>	<u>\$ (42,739)</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
BASIC PROGRAMS:			
ELEMENTARY			
Professional Salaries	\$ 465,266	\$ 451,039	\$ 14,227
Non-Professional Salaries	43,708	43,708	-
Insurance Benefits	141,296	141,296	-
Severance Pay	-	-	-
FICA	122,672	122,672	-
Purchased Services	22,422	22,422	-
Supplies	14,203	11,633	2,570
Capital Outlay	6,660	6,660	-
Total Elementary	<u>816,227</u>	<u>799,430</u>	<u>16,797</u>
MIDDLE SCHOOL			
Professional Salaries	418,762	418,762	-
Non-Professional Salaries	12,791	12,421	370
Insurance Benefits	114,428	114,428	-
Severance Pay	-	-	-
FICA	108,507	108,507	-
Purchased Services	47,453	47,057	396
Supplies	33,429	33,727	(298)
Capital Outlay	6,326	6,326	-
Miscellaneous Other Expenses	450	450	-
Total Middle School	<u>742,146</u>	<u>741,678</u>	<u>468</u>
SECONDARY			
Professional Salaries	573,707	573,707	-
Non-Professional Salaries	53,717	53,717	-
Insurance Benefits	136,183	136,183	-
Severance Pay	-	-	-
FICA	147,735	147,735	-
Purchased Services	170,015	162,816	7,199
Supplies	32,389	32,355	34
Capital Outlay	28,987	28,987	-
Miscellaneous Other Expenses	457	457	-
Total Secondary	<u>1,143,190</u>	<u>1,135,957</u>	<u>7,233</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS, (Continued):			
BASIC PROGRAMS/ ADDED NEEDS:			
Special Education:			
Professional Salaries	\$ 305,589	\$ 305,589	-
Non-Professional Salaries	7,755	6,664	\$ 1,091
Insurance Benefits	70,034	69,558	476
FICA	77,906	77,906	-
Purchased Services	8,400	7,838	562
Supplies	7,613	1,328	6,285
At Risk			
Professional Salaries	128,331	128,331	-
Non-Professional Salaries	10,028	10,028	-
Insurance Benefits	28,973	24,872	4,101
FICA	32,647	32,647	-
Purchased Services	7,764	969	6,795
Supplies	1,875	-	1,875
Title I			
Professional Salaries	50,141	50,136	5
Non-Professional Salaries	62,200	62,200	-
Insurance Benefits	10,466	10,466	-
FICA	27,722	23,301	4,421
Purchased Services	10,862	6,000	4,862
Supplies	4,905	526	4,379
Vocational education			
Professional Salaries	47,863	40,381	7,482
Insurance Benefits	16,011	15,003	1,008
FICA	12,153	10,209	1,944
Purchased Services	4,134	1,538	2,596
Supplies	5,866	3,089	2,777
Title VI			
Supplies	1,704	1,704	-

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
BASIC PROGRAMS/ADDED NEEDS, (Continued):			
Tech Literacy			
Non-Professional Salaries	-	-	-
FICA	-	-	-
Supplies	\$ 2,953	\$ 1,960	\$ 993
Purchased Services	1,380	-	1,380
Capital Outlay	19	-	19
Gifted and Talented			
Supplies	1,298	-	1,298
Title II			
Professional Salaries	52,896	61,994	(9,098)
Insurance Benefits	1,960	1,960	-
FICA	14,437	14,437	-
Purchased Services	-	-	-
Total Added Needs	<u>1,015,885</u>	<u>970,634</u>	<u>45,251</u>
TOTAL INSTRUCTION	<u>3,717,448</u>	<u>3,647,699</u>	<u>\$ 69,749</u>
SUPPORTING SERVICES:			
GUIDANCE SERVICES:			
Professional Salaries	-	-	-
Non-Professional Salaries	13,767	13,767	-
Insurance Benefits	193	81	112
FICA	2,953	2,805	148
Purchased Services	3,905	220	3,685
Supplies	-	-	-
Capital Outlay	-	-	-
Total Guidance Services	<u>20,818</u>	<u>16,873</u>	<u>3,945</u>

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
SCHOOL ADMINISTRATION:			
Professional Salaries	\$ 264,396	\$ 264,396	-
Non-Professional Salaries	61,454	61,454	-
Insurance Benefits	45,365	45,365	-
FICA	106,117	106,117	-
Purchased Services	34,179	28,540	\$ 5,639
Supplies	10,106	10,106	-
Capital Outlay	3,453	3,453	-
Miscellaneous Other Expenses	1,424	1,424	-
Total School Administration	526,494	520,855	5,639
BOARD OF EDUCATION:			
Professional Salaries	7,200	7,200	-
Purchased Services	37,444	33,939	3,505
Supplies	10,870	5,807	5,063
Miscellaneous Other Expenses	9,356	9,198	158
Total Board of Education	64,870	56,144	8,726
EXECUTIVE ADMINISTRATION			
Professional Salaries	139,300	139,300	-
Non-Professional Salaries	6,087	5,660	427
Insurance Benefits	18,928	18,928	-
FICA	32,258	31,995	263
Purchased Services	76,512	68,581	7,931
Supplies	5,446	5,176	270
Capital Outlay	56,364	56,139	225
RUSDLT Capital Outlay	80,191	79,710	481
Miscellaneous Other Expenses	5,014	3,118	1,896
Total Executive Administration	420,100	408,607	11,493
FISCAL SERVICES:			
Non-Professional Salaries	13,527	13,527	-
Insurance Benefits	183	183	-
FICA	3,387	3,387	-
Unemployment	73,905	73,905	-
Purchased Services	51,262	48,504	2,758
Supplies	2,080	2,080	-
Miscellaneous Other Expenses	-	-	-
Total Fiscal Services	144,344	141,586	2,758

HARBOR BEACH COMMUNITY SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
OPERATION & MAINTENANCE:			
Non-Professional Salaries	\$ 138,920	\$ 138,920	-
Insurance Benefits	84,275	84,275	-
FICA	33,230	33,230	-
Purchased Services	320,674	293,466	\$ 27,208
Supplies	15,260	15,260	-
Capital Outlay	24,943	24,563	380
Total Operation & Maintenance	<u>617,302</u>	<u>589,714</u>	<u>27,588</u>
PUPIL TRANSPORTATION:			
Non-Professional Salaries	160,361	160,361	-
Insurance Benefits	51,555	51,555	-
FICA	39,151	39,151	-
Purchased Services	21,331	21,331	-
Supplies	65,626	65,257	369
Capital Outlay	72,381	72,381	-
Miscellaneous	-	-	-
Total Pupil Transportation	<u>410,405</u>	<u>410,036</u>	<u>369</u>
OTHER BUSINESS SERVICES:			
Insurance Benefits	-	-	-
FICA	-	-	-
Purchased Services	54,980	54,980	-
Miscellaneous Other Expenses	-	-	-
Total Other Business Services	<u>54,980</u>	<u>54,980</u>	<u>-</u>
TOTAL SUPPORTING SERVICES	<u>2,259,313</u>	<u>2,198,795</u>	<u>60,518</u>
COMMUNITY SERVICE			
Drivers Education	-	-	-
TOTAL COMMUNITY SERVICE			
TOTAL EXPENDITURES	<u>5,976,761</u>	<u>5,846,494</u>	<u>130,267</u>
OUTGOING TRANSFERS AND OTHER:			
Other transfers	164,900	164,900	-
Contingency Fund	-	-	-
TOTAL OUTGOING TRANSFERS AND OTHER	<u>164,900</u>	<u>164,900</u>	<u>-</u>
TOTAL EXPENDITURES AND TRANSFERS	<u>\$ 6,141,661</u>	<u>\$ 6,011,394</u>	<u>\$ 130,267</u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2007

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 30,332	\$ 145,474	\$ 175,806
Due from other governmental units	1,796		1,796
Due from other funds	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 32,128</u>	<u>\$ 145,474</u>	<u>\$ 177,602</u>
 <u>LIABILITIES & FUND EQUITY</u>			
LIABILITIES:			
Accounts payable	-	\$ 525	\$ 525
Salaries payable	-	-	-
Due to other funds	\$ 29,629	82,985	112,614
Accrued Liabilities	-	-	-
<u>TOTAL LIABILITIES</u>	<u>29,629</u>	<u>83,510</u>	<u>113,139</u>
 FUND EQUITY:			
Fund Balance	2,499	61,964	64,463
<u>TOTAL FUND BALANCE</u>	<u>2,499</u>	<u>61,964</u>	<u>64,463</u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 32,128</u>	<u>\$ 145,474</u>	<u>\$ 177,602</u>

HARBOR BEACH COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL</u>
REVENUES:			
Local sources:			
Admissions		\$ 28,496	\$ 28,496
Meals	\$ 62,374		62,374
A la carte	6,249		6,249
Vending machines	123		123
Miscellaneous		-	-
Interest	2,338		2,338
Total local sources	<u>71,084</u>	<u>28,496</u>	<u>99,580</u>
State sources - State Aid	<u>16,581</u>		<u>16,581</u>
Federal sources:			
National School Lunch program	138,291		138,291
USDA Commodities	17,076		17,076
Total federal sources	<u>155,367</u>	<u>-</u>	<u>155,367</u>
TOTAL REVENUES	<u>243,032</u>	<u>28,496</u>	<u>271,528</u>
EXPENDITURES:			
Professional Salaries		79,047	79,047
Non-Professional Salaries	92,444	11,921	104,365
Insurance Benefits	3,229		3,229
FICA	22,844	22,286	45,130
Purchased Services	2,963	36,563	39,526
Supplies	155,612	1,526	157,138
Capital Outlay	5,909	6,182	12,091
Miscellaneous Other Expenses	<u>156</u>	<u>3,838</u>	<u>3,994</u>
TOTAL EXPENDITURES	<u>283,157</u>	<u>161,363</u>	<u>444,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(40,125)</u>	<u>(132,867)</u>	<u>(172,992)</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	-	139,500	139,500
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>(40,125)</u>	<u>6,633</u>	<u>(33,492)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>42,624</u>	<u>55,331</u>	<u>97,955</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,499</u>	<u>\$ 61,964</u>	<u>\$ 64,463</u>

HARBOR BEACH COMMUNITY SCHOOLS
FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Local sources:			
Meals	\$ 60,420	\$ 62,374	\$ 1,954
A la carte	9,680	6,249	(3,431)
Vending machines	675	123	(552)
Interest	3,500	2,338	(1,162)
Total local sources	<u>74,275</u>	<u>71,084</u>	<u>(3,191)</u>
State sources-State Aid	<u>13,500</u>	<u>16,581</u>	<u>3,081</u>
Federal sources:			
National School Lunch program	138,000	138,291	291
USDA Commodities	10,640	17,076	6,436
Total federal sources	<u>148,640</u>	<u>155,367</u>	<u>6,727</u>
TOTAL REVENUES	<u>236,415</u>	<u>243,032</u>	<u>6,617</u>
EXPENDITURES:			
Non-Professional Salaries	80,000	92,444	(12,444)
Insurance Benefits	21,275	3,229	18,046
FICA	19,192	22,844	(3,652)
Purchased Services	36,125	2,963	33,162
Supplies	132,155	155,612	(23,457)
Capital Outlay	2,100	5,909	(3,809)
Miscellaneous Other Expenses	-	156	(156)
TOTAL EXPENDITURES	<u>290,847</u>	<u>283,157</u>	<u>7,690</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(54,432)</u>	<u>(40,125)</u>	<u>14,307</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	<u>54,432</u>	<u>-</u>	<u>(54,432)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>-</u>	<u>(40,125)</u>	<u>(40,125)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>42,624</u>	<u>42,624</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 42,624</u>	<u>\$ 2,499</u>	<u>\$ (40,125)</u>

HARBOR BEACH COMMUNITY SCHOOLS
ATHLETIC FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES:			
Admissions	\$ 30,000	\$ 28,496	\$ (1,504)
Donation	-	-	-
TOTAL REVENUES	<u>30,000</u>	<u>28,496</u>	<u>(1,504)</u>
EXPENDITURES:			
Professional Salaries	80,000	79,047	953
Non-Professional Salaries	14,654	11,921	2,733
FICA	22,707	22,286	421
Purchased Services	36,800	36,563	237
Supplies	3,350	1,526	1,824
Capital Outlay	8,238	6,182	2,056
Miscellaneous Other Expenses	3,750	3,838	(88)
TOTAL EXPENDITURES	<u>169,499</u>	<u>161,363</u>	<u>8,136</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(139,499)</u>	<u>(132,867)</u>	<u>6,632</u>
OTHER FINANCING SOURCES (USES):			
Fund transfers in	139,500	139,500	-
EXCESS REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	<u>1</u>	<u>6,633</u>	<u>6,632</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>55,331</u>	<u>55,331</u>	
FUND BALANCE AT END OF YEAR	<u>\$ 55,332</u>	<u>\$ 61,964</u>	<u>\$ 6,632</u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
June 30, 2007

	<u>2001 SCHOOL BUILDING AND SITE BONDS</u>	<u>2005 REFUNDED BONDS</u>	<u>DURANT BONDS</u>	<u>TOTAL 2007</u>
<u>ASSETS</u>				
Cash and investments	<u>\$ 52,536</u>	<u>\$ 309,067</u>	<u>\$ -</u>	<u>\$ 361,603</u>
	<u>\$ 52,536</u>	<u>\$ 309,067</u>	<u>\$ -</u>	<u>\$ 361,603</u>
<u>FUND BALANCES</u>				
Fund balances	<u>\$ 52,536</u>	<u>\$ 309,067</u>	<u>\$ -</u>	<u>\$ 361,603</u>

HARBOR BEACH COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	2001 SCHOOL BUILDING AND SITE BONDS	2005 REFUNDED BONDS	DURANT BONDS	TOTAL 2007
REVENUES:				
Local Sources:				
Property taxes	\$ 388,132	\$ 483,127	-	\$ 871,259
Interest	1,621	8,465		10,086
Total Local Sources	389,753	491,592	-	881,345
State sources			\$ -	-
TOTAL REVENUES	389,753	491,592	-	881,345
EXPENDITURES:				
Debt Service:				
Principal repayment	315,000	40,000	-	355,000
Interest and other fiscal charges	72,650	415,404	-	488,054
TOTAL EXPENDITURES	387,650	455,404	-	843,054
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,103	36,188	-	38,291
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-		-
Operating transfers out	-			-
TOTAL OTHER FINANCING SOURCES (USES):	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)	2,103	36,188	-	38,291
FUND BALANCES:				
Beginning of Year	50,433	272,879	-	323,312
End of Year	\$ 52,536	\$ 309,067	\$ -	\$ 361,603

HARBOR BEACH COMMUNITY SCHOOLS
PRIVATE-PURPOSE TRUST AND AGENCY FUNDS
COMBINING BALANCE SHEET
FOR THE YEAR ENDED JUNE 30, 2007

		<u>TRUST FUNDS</u>		<u>AGENCY FUND</u>	<u>TOTAL</u>
		<u>ANNA BELLE SCRANTON SCHOLARSHIP</u>	<u>DEER ACRES SCHOLARSHIP</u>	<u>STUDENT ACTIVITIES</u>	<u>2007</u>
<u>ASSETS</u>					
Cash			\$ -	\$ 93,977	\$ 93,977
Investments					-
Total assets		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,977</u>	<u>\$ 93,977</u>
 <u>LIABILITIES AND NET ASSETS</u>					
LIABILITIES:					
Due to student and other groups				\$ 93,977	\$ 93,977
NET ASSETS					
Total net assets		\$ -	\$ -	-	-
TOTAL LIABILITIES AND NET ASSETS		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,977</u>	<u>\$ 93,977</u>

HARBOR BEACH COMMUNITY SCHOOLS
PRIVATE-PURPOSE TRUST FUNDS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>ANNA BELLE SCRANTON SCHOLARSHIP</u>	<u>DEER ACRES SCHOLARSHIP</u>	<u>TOTAL 2007</u>
REVENUES			
Interest			-
Dividends			-
Donations			-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	<hr/> -	<hr/> -	<hr/> -
EXPENDITURES			
Scholarship			-
Increase (Decrease) in fair market value of investments			-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	<hr/> -	<hr/> -	<hr/> -
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-
NET ASSETS			
Beginning of Year	\$ 6,993	\$ 5,409	\$ 12,402
Transfer of Funds to Huron County Community Foundation	<hr/> (6,993)	<hr/> (5,409)	<hr/> (12,402)
End of Year	<hr/> \$ -	<hr/> \$ -	<hr/> \$ -

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007

	BALANCE AT 6/30/2006	REVENUES	EXPENDITURES	BALANCE AT 6/30/2007
Advanced Placement - English	\$ 999	\$ 291	\$ 238	\$ 1,052
Art Design	2,112	1,576	2,102	1,586
Athletic Tournament	11,219	6,777	6,745	11,251
Band	6,269	15,624	14,253	7,640
Baseball Fund	233	-	-	233
Business Fund	19	-	-	19
Cheerleaders	389	-	191	198
Chicken BBQ	-	2,886	2,886	-
Class of '03	656	-	-	656
Class of '05	611	-	611	-
Class of '06	1,126	-	-	1,126
Class of '07	1,761	1,596	2,541	816
Class of '08	848	6,473	5,204	2,117
Class of '09	1,507	388	63	1,832
Class of '10	-	540	34	506
Coke Fund	654	11,831	14,124	(1,639)
Computer Club	1,515	-	-	1,515
Computerized Sign	-	590	-	590
Cross Country	300	2,194	1,466	1,028
Dow Science & English Scholarship	-	1,000	1,000	-
Elementary Musical	(22)	-	-	(22)
Elementary Student Council	70	-	-	70
Elementary School Activity	4,911	4,867	5,503	4,275
Flower Fund	200	130	276	54
Fitness Center	600	1,195	-	1,795
Future Farmers of America	6,557	12,494	13,097	5,954
Future Farmers of America - Fruit Fund	-	12,847	12,847	-
Future Homemakers of America	282	-	-	282
Girls Soccer Club	-	4,350	3,266	1,084
Girls Varsity Basketball	148	2,822	2,161	809
Greenfield Village Trip	2,803	-	-	2,803
Greenhouse	525	-	-	525
HBAA & HBHS Scholarship	6,473	2,218	2,250	6,441
HB PTO	-	21,252	15,586	5,666
High School Band Trip	12,825	20,197	32,811	211
High School Play Fund	1,027	-	21	1,006
Home Liaison Fund	8,282	335	2,411	6,206
Huron Jr Honors Band	1,321	1,163	428	2,056
James Popilek Fund	1,200	-	-	1,200
Library Fund	705	902	1,520	87
Mary Bryson Award	-	1,000	1,000	-
Michigan Youth in Government	137	-	-	137
Middle School Projects	4,576	11,564	13,084	3,056

(Continued)

HARBOR BEACH COMMUNITY SCHOOLS
AGENCY FUND - STUDENT ACTIVITIES
SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2007

(Continued)	BALANCE AT 6/30/2006	ADDITIONS	DELETIONS	BALANCE AT 6/30/2007
MS Football	\$ 243	\$ 1,460	\$ 406	\$ 1,297
MS Volleyball	1,929	1,781	1,739	1,971
Mural Fund	1,019	-	-	1,019
National Honor Society	798	808	728	878
Newspaper Fund	113	-	-	113
Patio Landscaping	668	-	-	668
Physical Education	176	-	-	176
Pop Fund	307	-	-	307
Resource Room Club	5	-	-	5
Ruthann Woodland Elementary Library	186	-	-	186
Saturday Fun Nights	92	-	-	92
School Activity fund	(156)	2,167	2,265	(254)
Science Telescope Project	700	-	-	700
Soccer	9	1,503	1,496	16
Softball	231	-	-	231
St Clair Co Comm College	-	2,046	-	2,046
Staff Fund	206	-	-	206
Student Council	263	460	407	316
Student Parking	150	265	238	177
Student Supplies Shop	13	-	-	13
Technology Fund	-	495	349	146
Track club	3,186	4,076	5,178	2,084
Tractor Pull	-	3,869	220	3,649
Volleyball	2,981	1,113	723	3,371
Wal-Mart Teacher of the Year	-	1,000	-	1,000
Weightlifting Club	813	609	1,065	357
Yearbook	982	5,665	7,661	(1,014)
Interest income	-	312	312	-
TOTALS	<u>\$ 97,752</u>	<u>\$ 176,731</u>	<u>\$ 180,506</u>	<u>\$ 93,977</u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
1998 (DURANT) BONDS
June 30, 2007

An annual appropriation to be made by the State of Michigan is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate funds, the district is under no obligation for payment.

PRINCIPAL DUE MAY 15	RATE	INTEREST DUE MAY 15	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			JUNE 30	AMOUNT
0	4.761%	0	2008	0
\$ 3,601	4.761%	\$ 943	2009	\$ 4,544
3,773	4.761%	771	2010	4,544
3,952	4.761%	592	2011	4,544
22,544	4.761%	7,986	2012	30,530
4,337	4.761%	207	2013	4,544
<u>\$ 38,207</u>		<u>\$ 10,499</u>		<u>\$ 48,706</u>

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2001 SCHOOL BUILDING AND SITE BONDS
June 30, 2007

The bond issue dated July 12, 2001 was for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping, reequipping, furnishing and refurbishing the existing middle school and high school facility to provide a PreK-12 facility. During 2005, the District refinanced these bonds in the amount of \$9,345,000.

PRINCIPAL DUE	RATE	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			DATE	AMOUNT
\$ 325,000	4.050%	\$ 29,494	11/1/2007	\$ 29,494
		29,494	5/1/2008	354,494
340,000	4.200%	22,913	11/1/2008	22,913
		22,913	5/1/2009	362,913
355,000	4.300%	15,773	11/1/2009	15,773
		15,773	5/1/2010	370,773
370,000	4.400%	8,140	11/1/2010	8,140
		8,136	5/1/2011	378,136
<u>\$ 1,390,000</u>		<u>\$ 152,636</u>		<u>\$ 1,542,636</u>

HARBOR BEACH COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT
2005 REFUNDING BONDS
June 30, 2007

The 2005 Refunding Bonds will replace the bond issue dated July 12, 2001.

PRINCIPAL DUE	RATE	INTEREST DUE	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
			DATE	AMOUNT
		\$ 207,088	11/1/2007	\$ 207,088
\$ 40,000	3.000%	207,088	5/1/2008	247,088
		206,488	11/1/2008	206,488
40,000	3.000%	206,488	5/1/2009	246,488
		205,888	11/1/2009	205,888
40,000	3.100%	205,888	5/1/2010	245,888
		205,268	11/1/2010	205,268
40,000	3.250%	205,268	5/1/2011	245,268
		204,618	11/1/2011	204,618
430,000	4.000%	204,618	5/1/2012	634,618
		196,018	11/1/2012	196,018
450,000	4.000%	196,018	5/1/2013	646,018
		187,018	11/1/2013	187,018
470,000	4.250%	187,018	5/1/2014	657,018
		177,030	11/1/2014	177,030
490,000	4.000%	177,030	5/1/2015	667,030
		167,230	11/1/2015	167,230
510,000	4.250%	167,230	5/1/2016	677,230
		156,393	11/1/2016	156,393
530,000	4.250%	156,393	5/1/2017	686,393
		145,130	11/1/2017	145,130
555,000	4.250%	145,130	5/1/2018	700,130
		133,336	11/1/2018	133,336
575,000	4.250%	133,336	5/1/2019	708,336
		121,118	11/1/2019	121,118
600,000	4.250%	121,118	5/1/2020	721,118
		108,368	11/1/2020	108,368
630,000	4.250%	108,368	5/1/2021	738,368
		94,980	11/1/2021	94,980
655,000	4.250%	94,980	5/1/2022	749,980
		81,061	11/1/2022	81,061
685,000	4.250%	81,061	5/1/2023	766,061
		66,505	11/1/2023	66,505
715,000	4.250%	66,505	5/1/2024	781,505
		51,311	11/1/2024	51,311
745,000	4.300%	51,311	5/1/2025	796,311
		35,294	11/1/2025	35,294
780,000	4.400%	35,294	5/1/2026	815,294
		18,134	11/1/2026	18,134
815,000	4.450%	18,123	5/1/2027	833,123
<u>\$ 9,795,000</u>		<u>\$ 5,536,541</u>		<u>\$ 15,331,541</u>



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

September 13, 2007

To the Board of Education
Harbor Beach School District
Harbor Beach, MI 48441

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harbor Beach District Schools' basic financial statements and have issued our report thereon dated September 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harbor Beach District Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we considered to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and responses to be significant in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2007-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harbor Beach District Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Harbor Beach District Schools in a separate letter dated September 13, 2007.

Harbor Beach District Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Harbor Beach District Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 13, 2007

To the Board of Education
Harbor Beach School District
Harbor Beach, MI 48441

Schedule of Finding and Responses

Findings considered material weaknesses

Finding 2007-1

Criteria:

Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition:

After considering the qualifications of the accounting personnel of Harbor Beach Schools, we believe that the personnel have the abilities to maintain the day-to-day bookkeeping of the School District, but they do not have the qualifications and abilities to generate financial statements, including required footnotes, in accordance with accounting principles generally accepted in the United States of America.

Cause:

The staff of the district does not understand all information included in the annual financial statements; however, we assist in preparing the financial statements and related footnotes.

Effect:

We assist management with the external financial reporting responsibility to ensure their financial statements are accurate.

Recommendation:

We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Client Response:

We are aware of this deficiency and we are in the process of transitioning some of our accounting to the Huron Intermediate School District. We would expect this situation to be corrected within 12 to 24 months. In the interim, we will continue to use our external auditors for this technical assistance.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

September 13, 2007

To the Board of Education
Harbor Beach Community Schools
Harbor Beach, Michigan

In planning and performing our audit of the financial statements of Harbor Beach Community Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider not to be a material weakness.

A control deficiency exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency does not constitute a material weakness.

Athletic Events

We found that the procedures being followed for collecting, recording, and safeguarding gate receipts (ticket sales) at athletic events could be strengthened. We would recommend that the School District review the procedures and reporting forms that are suggested by M.S.B.O. and revise the School districts reporting form to include a cash count by the ticket takers including signatures and dates. A verifying count by someone in the Athletic Department should also include a date and a signature to double check the ticket takers cash count.

This communication is intended solely for the information and use of management, Harbor Beach Schools, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants